INSIDE THE BARON FUNDS
INVESTOR

Baron Emerging Markets Fund

A Differentiated Approach to Investing in Emerging Markets

Why invest in emerging markets? Emerging markets offer appealing demographics, solid growth potential, and diversification. However, higher growth rates in emerging economies have not necessarily translated into market growth. In our view, the key to successful investing in many emerging markets hinges in large part on pro-market governmental reforms, as countries transition from low-wage commodity- and industrial-based economies to higher-wage, consumer-based economies.

Reform is critical because historically, the emerging markets have been notoriously inefficient, encumbered by poor capital allocation and a high degree of "leakage" due to corruption and bureaucratic incompetence. While the path to reform is never smooth, successful implementation can help improve productivity and efficiencies and reduce leakage, which in turn should result in equity share price growth as value creation drops down to its rightful owner – the shareholder. In addition, reform can lead to long-term structural improvements in the economies of these countries, which can give them an edge over their peers and help generate investor confidence.

For these reasons and others, we believe a truly active approach is preferable when investing in this dynamic asset class. Active management allows portfolio managers the flexibility to invest in the most attractive opportunities while avoiding or shifting away from high-risk situations before such adverse conditions are discounted by the market. The active manager's investment universe can include stocks of all capitalizations, while an emerging markets index fund is typically dominated by the giant caps whose performance tends to be tied more closely to global events. Active managers also have the ability to access promising companies and markets that are not in the index at all.

Baron Emerging Markets Fund

Michael Kass
Portfolio Manager

Baron Emerging Markets Fund is our emerging markets growth equity investment option. The Fund is managed by Michael Kass, who also manages Baron International Growth Fund and the recently launched Baron New Asia Fund with Anuj Aggarwal. Michael, who has managed Baron Emerging Markets Fund since its inception, brings 35 years of experience managing significant portfolios to his role. Michael is assisted by a team of five research analysts focused solely on non-U.S. investing. He combines Baron's long-term perspective and bottom-up, fundamental research approach with forward-looking theme identification to help focus research in the most promising, high-impact growth areas.

We believe our emphasis on value-creating private sector entrepreneurs, analytical depth, and long-term view distinguishes the Fund. In addition, we think our unique, forward-looking approach to theme identification and stock selection is a key differentiator that has helped drive positive long-term risk-adjusted outperformance. Finally, we take a disciplined, multi-faceted approach to risk management, which we believe is critical to successful investing in this space.

Bottom-Up Research With a Thematic Overlay

Investable themes Given the breadth and diversity of the emerging markets equity universe, we often begin the process of researching our investments by searching for and developing defined, long-term investable themes. We look for conditions precedent to improving financial returns and accelerating growth on a forward-looking basis. We avoid screens, because we consider them to be inherently backward looking, identifying companies that are already reporting improved returns and thus more likely to be recognized and appropriately valued as a result.

Our themes are predicated on significant changes or trends that suggest the potential for sizable improvement in profitability, return on capital, or growth potential, frequently for an entire industry or group of companies. The themes fall into two broad categories. The first involves region- or country-specific trends or developments, which are most commonly driven by political developments and/or productivity-enhancing policy reforms that offer material opportunities to target industries or companies. The second involves industry-wide trends that are often global, such as a shift toward consolidation or vertical integration, or technology-driven transformation. In addition, to better balance opportunity and risk, we monitor global macroeconomic developments to assess their potential impact on our holdings.

Research-intensive bottom-up stock selection While themes may serve to focus our research, ultimately, we add value through fundamental, bottom-up stock selection. We apply Baron's investing approach to emerging markets, favoring best-in-class companies with competitive advantages, meaningful and increasing market share, and experienced yet entrepreneurial management, as well as revenue visibility, stable profit margins, and significant growth potential over the long term. We develop and confirm an investment thesis and validate key criteria through extensive due diligence, including meeting with management; consulting with industry experts; speaking with local contacts such as vendors, suppliers, and competitors; and evaluating the company's public filings.

We are valuation-conscious, buying when we believe stocks trade inexpensively enough to earn a 15% annualized return over the next three to five years. To assess the growth opportunities of an investment, we build a company-specific five-year model focused on revenue growth drivers, capital structure, cost structure, and profitability. We model five years of forward-looking earnings and financial metrics. We stress test returns under different scenarios. Finally, we continually update our models based on new data points and developments.

In addition, in recognition of the complexities and risks of the emerging markets, we emphasize the following in the companies in which we invest:

Entrepreneurial management

- Founders with significant ownership stakes
- Leaders with strategic vision and financial sophistication
- Management that thinks and acts as an "owner"

Capital efficiency

- High return on invested capital
- Asset-light business models
- Private sector businesses and more competitive state owned enterprises

Shareholder-friendly governance

- Alignment of interests between management and minority equity shareholders
- Independent directors

We believe these attributes, which help to align our interests as minority shareholders with those who control and manage the business, are key to successful investing in emerging markets. We also believe that our disciplined approach in emphasizing these features, which we believe represent scarcity value in these markets, differentiates us from the index and many of our peers.

Multi-Faceted Risk Management

The complex interplay and uncertainties inherent in the geopolitical, economic, and financial conditions that impact the emerging markets require disciplined risk management. Our multi-pronged risk strategy is based on four key tenets:

- Emphasis on higher-quality businesses
- Use of forward-looking investable themes
- Vigilant monitoring of liquidity, currency, and credit risks
- Disciplined approach to position management

Emphasis on higher-quality businesses First, we manage risk at the company level, investing in higher-quality businesses with high returns on capital, less leveraged balance sheets, and reduced need for external capital to fund the targeted growth rate. We find that these types of businesses tend to be less adversely affected by an increase in the cost of capital or closure or tightening of access to capital. We believe this approach is the main driver of our historic outperformance in mediocre or deteriorating economic conditions.

Use of forward-looking investable themes Second, we believe the possibility of improving returns or accelerated growth potential for a company or industry is bolstered by our development and use of investable themes. If we understand correctly the factors at play and likely to play out within a theme over the next year or several years, we think we will likely see improving fundamentals in the companies we own. This has the potential to provide a margin of safety. As the theme matures and is discounted by the market, the margin of safety may decline. At that time, we will ask ourselves whether we should reduce our allocation to the theme.

Vigilant monitoring of liquidity, currency, and credit risks Third, we continually monitor the potential impact of global liquidity conditions, and currency and sovereign credit risks. We weigh these risks through a fixed income lens, seeking to anticipate and understand the possible impacts of the factors at play before the environment is repriced.

Baron Emerging Markets Fund
Top 10 Holdings as of March 31, 2022

Holding	Sector	% of Net Assets
Taiwan Semiconductor Manufacturing Company Ltd.	Information Technology	5.2
Samsung Electronics Co., Ltd.	Information Technology	3.7
Tencent Holdings Limited	Communication Services	3.5
Glencore PLC	Materials	3.1
Alibaba Group Holding Limited	Consumer Discretionary	2.7
Reliance Industries Limited	Energy	2.5
Bajaj Finance Limited	Financials	2.2
Suzano S.A.	Materials	1.9
Wal-Mart de Mexico, S.A.B. de C.V.	Consumer Staples	1.8
Korea Shipbuilding & Offshore Engineering Co., Ltd.	Industrials	1.8
Total		28.4

Disciplined approach to position sizing and management Finally, we think it is well worth drawing attention to our disciplined approach to initiating, building, reducing, and exiting positions. This approach reflects, in part, Kass's extensive hedge fund experience, with an emphasis on absolute returns and minimizing of the permanent loss of capital.

Investable Themes

Many – but not all – of our holdings fall within defined, long-term investable themes. Some current themes are:

- Digitization
- India financialization
- China value-added
- EM consumer
- Sustainability/EV supply chain
- FinTech
- Labor, manufacturing, and business productivity

Digitization The world is going digital. Digitization – the use of connected digital technologies and applications by consumers, enterprises, and governments – is in the process of transforming the way we live, work, learn, socialize, and entertain ourselves. More people today have access to a mobile phone than to electricity.[1] The pandemic – and the consumer and business reactions to it – has simply accelerated the changes underway from the past decade or so of digitization. Yet in many emerging market countries, digitization is only in the most nascent stage of development, implying a massive and lengthy runway for growth.

We are invested in a sizable number of companies that are leading and/or benefiting from digitization. Some newer additions include **InPost S.A.,** and **Think & Learn Private Limited.**

We participated in the early 2021 IPO of InPost, which operates the largest automated parcel locker network in Poland, increasingly the preferred method among Poles to receive and return online purchases. The company's dense, technology-enabled logistics network has facilitated efficient package delivery times and e-commerce frequency levels generally not seen in any other emerging market outside of China. The company is also expanding to new markets, with a nascent position in the U.K. and via a recently announced acquisition of Mondial Relay, a logistics network in France.

Also in early 2021, we participated in the Series F private funding round of Think & Learn, which is the parent entity of BYJU's – the Learning App, India's largest education technology company with over 90% market share. Think & Learn is our first private investment, and we are excited to partner with founder Byju Raveendran and his entrepreneurial team as the company continues to grow its user base and diversify into new business verticals and expand internationally. In our view, India's education technology industry is still in its infancy and is expected to scale significantly over the next several years.

The next Amazons Amazon.com, Inc. has been one of the most successful U.S. stocks of the past 25 years, returning well over 100,000% from its initial public offering price of $18 ($1.50 adjusted for stock splits). A large part of the returns has come from two driving forces. First, Amazon has vastly expanded its reach. Launched as an online bookseller, Amazon now has its fingers in everything from cloud computing to online media to groceries to health care. Second, Amazon has managed to maintain a growth stock valuation for over two decades, and there's little sign of that ending any time soon.

It's an impressive combination, and one that's likely impossible to duplicate. But we think several emerging market stocks have the potential to at least replicate parts of the Amazon success story.

China's **Alibaba Group Holding Limited** is the best known of these companies, and in fact is often referred to as the Amazon of China. The company's core business is massive; it is the world's largest e-commerce company by gross merchandise value. After attempting for years to compete against Alibaba and China's other e-commerce giant, JD.com, Amazon finally admitted defeat in 2020, announcing that it would be shuttering its Chinese e-commerce business.

Like Amazon, Alibaba's operations extend far beyond online commerce. It has fast-growing businesses in areas such as mobile payments, digital advertising, cloud computing, and health care. In addition, Alibaba has positioned itself as a valuable partner to brick-and-mortar retailers by providing them with the ability to accept mobile payments and offer home delivery. It is also expanding its reach beyond China. It has invested more than $2 billion in India through stakes in mobile payment service Paytm, online grocer BigBasket, e-commerce platform Snapdeal, and others. It holds a controlling stake in Singapore-based Lazada, the top e-commerce player in Southeast Asia, and has entered a deal to acquire London mobile payment company WorldFirst.

Recently, Alibaba has been in the headlines as a result of crackdowns by Chinese regulators on various aspects of digital technology and consumerism in an attempt to re-focus investment in China on the community. Despite the regulatory uncertainty, we retain conviction that Alibaba will benefit from rapid growth in cloud services, logistics, and retail.

Reliance Industries Limited is India's leading conglomerate, with businesses that encompass petrochemicals, refining, and oil- and gas-related operations as well as retail, telecommunications, and media. CEO Mukesh Ambani has embarked on an initiative to leverage Reliance's vast telecom network Jio to pivot to a digital services company, offering e-commerce, video streaming, and broadband services. The company is also laying the groundwork to create an online

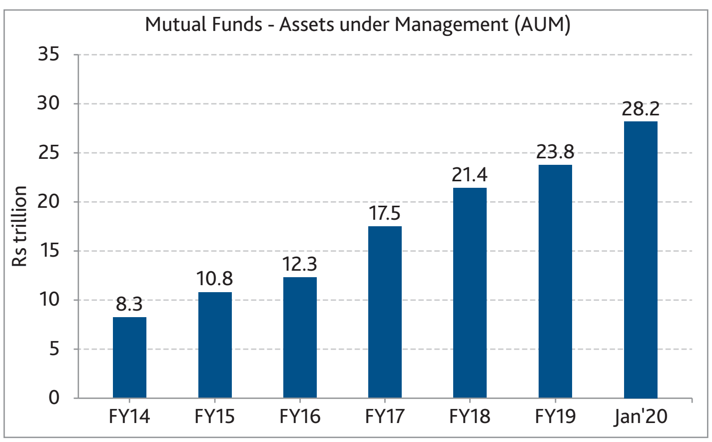
[1] See ITU's World Telecommunication/ICT Indicators, the World dataBank World Development Indicators (WDI).

marketplace that will connect over 12 million mom & pop retailers to Jio's more than 400 million mobile/internet subscribers. Its app will allow consumers to place orders to be fulfilled by local merchants, a business model known as O2O (online-to-offline) pioneered by Alibaba. Reliance benefits from first-mover advantage, massive infrastructure, and deep pockets, along with recent government rulings that we believe will favor domestic internet companies. We think Reliance will emerge as the most likely "Amazon of India" in coming years.

India's financialization reform As the world's largest democracy, India offers vast investment opportunities. When Narendra Modi was elected Prime Minister in 2014, he implemented sweeping reforms that helped stimulate India's economy and encourage foreign investment. These reforms were moved to the back burner during Modi's reelection campaign, but they are moving forward again after his definitive victory in 2019. Although we do not expect the road to reform to happen easily and the pandemic has certainly forced a slowdown in the implementation of reform initiatives, we believe Modi has laid the groundwork for what can mature into a virtuous investment cycle while also driving impressive productivity gains.

Chief among Modi's reforms are the GST (goods-and-services tax), demonetization, and financial inclusion, which are all aimed at transforming India from a cash-based to a bank-based financial system. In turn, this shift is designed to help reduce rampant tax evasion, put assets to use that had traditionally been kept in gold and real estate, and increase opportunities for Indians to invest in financial products.

We see numerous investment opportunities flowing from these reforms. With GST taxes now taking a bite out of their income, small- and medium-sized businesses are looking for ways to make up for lost revenue. In addition, demonetization is helping to unlock personal assets that used to be hidden in gold and unregistered real estate. This new influx of capital is helping to fuel the financial and wealth management industries. As seen in the chart below, as a result of these reforms, investments in mutual funds have significantly increased over the past five years.



www.equitymaster.com Data sources: CAMS DRHP, AMFI

We are invested in a number of companies that we believe are the best positioned to benefit from the impacts of the reforms.

Housing Development Finance Corporation Limited (HDFC) is the Fannie Mae of India, the country's leading housing and mortgage lender. The company enjoys unassailable competitive advantages, including best-in-class cost efficiencies and risk management. India is experiencing a housing upturn, driven in part by government initiatives to stimulate the industry, favorable demographic trends, and improvements in affordability.

JM Financial, a financial services firms offering products across an array of verticals, including investment banking, securities, asset management, and life insurance, should also gain from the reforms, in our view. Another stock we like is life insurance company **Max Financial Services Ltd.**, which should benefit from financialization and growing demand for insurance services.

China-based value-added businesses In its pursuit of self-sufficiency and proficiency in core technologies, the Chinese government is actively looking for ways to support higher value-added domestic companies with more intellectual capital through subsidies and other privileges and advantages. It unveiled details of this strategy in 2015, in MIC (Made in China) 2025, which called for $350 billion in subsidies to 10 strategic sectors, such as robotics, next-generation information technology, biomedicine, and new-energy vehicles. China has also been pressuring competing foreign firms with regulations and other restrictions. Although state owned enterprises (SOEs) have been the primary beneficiaries, the private sector is also gaining from this initiative.

One investment within our China value-added theme is **Kingsoft Corporation Ltd.**, a gaming, office software (WPS), and cloud services company. We think the market underappreciates Kingsoft's industry leadership and the substantially untapped software sector in China. On the biomedical front, another industry in which the Chinese government aspires to have a larger domestic position, we own **Zai Lab Limited,** an early leader in the nascent and developing biotechnology sub-industry.

Conclusion

The past number of months have been challenging for EM investors. The region was already being pressured by supply bottlenecks, an economic slowdown, and the lingering impacts of the pandemic. Then, on February 24, 2022, Russia invaded Ukraine. The collateral financial and market impact of this sudden and disturbing act of aggression resonated worldwide. Russian equities were effectively written down to zero, while Russia will be excluded from the major indexes going forward.

Regardless of how the crisis evolves, we believe there are some lasting conclusions for EM markets: 1. Putin has overplayed his hand and leaves himself and Russia more vulnerable; 2. A new global theme has emerged, which we have dubbed "Global Security," requiring a shift in capital toward energy, commodity and food/agricultural security, and infrastructure and an increase in defense spending; 3. The U.S./NATO's unprecedented economic sanctions against Russia will likely accelerate the decline in demand for dollars while encouraging the emergence of alternative reserve currencies, which, in turn, should favor EM equities; and 4. India is a likely winner as its strategic value is on the rise as the largest developing world democracy and ally of the U.S./NATO, while it also is the greatest likely beneficiary of efforts to diversify production and supply chains.

After experiencing a wholesale loss of capital on Russian exposure, some investors began to fear that China may also present Russia-related geopolitical risk. We discount the likelihood of China overtly allying itself with Russia because *it simply is not in China's interest nor* *demeanor to do so*. Russia has always been about chaos and disruption; China's mantra is stability and peace. Russia is a country of minor economic significance with little to lose; China is a rising superpower with everything to lose. Direct support for Putin's war would trigger a strong reaction and substantial isolation, reverse decades of economic progress, and compromise China's desire to become the Asian hegemony with a competitive reserve currency. We also remain encouraged by evidence of impending regulatory relief, financial easing, and economic stimulus in China. While the recent wave of COVID defers China's recovery somewhat, we think the mid-March equity market capitulation may represent a bottom for this asset class, and perhaps by extension, for EM equities in general.

Investors should consider the investment objectives, risks, and charges and expenses of the investment carefully before investing. The prospectus and summary prospectuses contain this and other information about the Funds. You may obtain them from the Funds' distributor, Baron Capital, Inc., by calling 1-80099BARON or visiting www.BaronFunds.com. Please read them carefully before investing.

Risks: In addition to the general stock market risk that securities may fluctuate in value, investments in developing countries may have increased risks due to a greater possibility of: settlement delays; currency and capital controls; interest rate sensitivity; corruption and crime; exchange rate volatility; and inflation or deflation. The Fund invests in companies of all sizes, including small- and medium-sized companies whose securities may be thinly traded and more difficult to sell during market downturns.

The discussion of market trends and companies are not intended as advice to any person regarding the advisability of investing in any particular security. Some of our comments are based on current management expectations and are considered "forward-looking statements." Actual future results, however, may prove to be different from our expectations. Our views are a reflection of our best judgment at the time and are subject to change any time based on market and other conditions, and we have no obligation to update them.

The portfolio manager defines **"best-in-class"** as well-managed, competitively advantaged, faster growing companies with higher margins and returns on invested capital and lower leverage that are leaders in their respective markets. Note that this statement represents the manager's opinion and is not based on a third-party ranking.

Portfolio holdings as a percentage of total investments as of March 31, 2022, for securities mentioned are as follows:

InPost S.A. 0.7%, **Think & Learn Private Limited** 0.9%; **Housing Development Finance Corporation Limited** 0.5%; **JM Financial Limited** 0.5%; **Max Financial Services Limited** 1.0%; **Kingsoft Corporation Ltd.** 1.0%; **Zai Lab Limited** 0.7%.

At 3/31/22, the Fund did not own Amazon.com, Inc.

The Fund may not achieve its objectives. **Portfolio holdings are subject to change. Current and future portfolio holdings are subject to risk.**

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PRODUCTS WE OFFER

We offer 19 mutual funds in retail, institutional, and R6 share classes, collective investment trusts, separately managed accounts, sub-advisory services, UCITS, and other offshore vehicles.

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BARON OPPORTUNISTIC SMALL CAP GROWTH STRATEGY
BARON SMALL TO MID CAP GROWTH STRATEGY
BARON FOCUSED GROWTH STRATEGY
BARON MID CAP GROWTH STRATEGY
BARON DURABLE ADVANTAGE STRATEGY
BARON LARGE CAP GROWTH STRATEGY
BARON HIGH GROWTH STRATEGY
BARON ALL CAP GROWTH STRATEGY
BARON EMERGING MARKETS STRATEGY
BARON GLOBAL ADVANTAGE STRATEGY
BARON INTERNATIONAL GROWTH STRATEGY
BARON HEALTH CARE STRATEGY
BARON REAL ESTATE STRATEGY
BARON REAL ESTATE INCOME STRATEGY

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BARON FOCUSED GROWTH FUND
BARON ASSET FUND
BARON FIFTH AVENUE GROWTH FUND
BARON DURABLE ADVANTAGE FUND
BARON OPPORTUNITY FUND
BARON PARTNERS FUND
BARON EMERGING MARKETS FUND
BARON INTERNATIONAL GROWTH FUND
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